R 9050 - 3

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Tax Features

Senate Finance Committee Hears Gable Testify on Corporate Taxes

Wayne Gable, president of the Tax Foundation, testified on the corporate tax burden to the Senate Finance Committee on May 3, 1990.

Chairman Lloyd Bentsen and his colleagues on the committee were investigating the causes of lower-than-expected corporate tax receipts since the passage of the Tax Reform Act of 1986.

Wayne Gable testifies before the Senate Finance Committee on behalf of the Tax Foundation, one of only two private groups invited.

Gable presented evidence that the corporate tax burden is growing significantly, and that lower corporate profits are the main reason corporate tax revenues have not been higher. "In 1950, for example, corporate profits represented 18 percent of our national income. . . . In 1989, corporate profits account for a mere 6.8 percent of our nation's income."

Gable pointed out that federal corporate income taxes are only part of the picture. "They have risen 46 percent since 1980, but state and local corporate income tax revenues have increased 66 percent in that time. Combined, the federal, state and local corporate income tax take far surpasses the levels of the early 1970s."

The largest portion of the business tax burden, however, has become the corporate share of payroll taxes, "outstripping corporate income taxes and currently costing about $150 billion annually."

Full testimony available. Call 202-863-5454.

FRONT BURNER

Attacking the Budget Deficit: Two Views

Congressman Richard T. Schulze

Congressman Dan Rostenkowski

On p. 2, Chairman Dan Rostenkowski (D-IL) and his colleague on the House Ways and Means Committee, Richard T. Schulze (R-PA), address one of the nation's front burner issues: What action should be taken to solve our persistent budgetary problems.

The opinions expressed in the Front Burner are not necessarily those of the Tax Foundation. Editorial replies are encouraged.

Hastert and Grassley Introduce Tax Freedom Day Commemorative Legislation

Congressman J. Dennis Hastert (R-IL) and Senator Charles E. Grassley (R-IA) introduced a resolution on May 1 to designate May 5, 1990, as "National Tax Freedom Day."

According to Congressman Hastert, "We hear more and more calls for increasing taxes, supposedly for the purpose of balancing the budget. The fact is that Americans shoulder a heavier tax burden now than ever before."

Tax Freedom Day is calculated every year by the Tax Foundation. It determines the day on which the average American taxpayer has earned enough to pay his total tax bill, federal, state and local.

The frequent focus of news stories on just the income tax or the social security tax obscures the importance of knowing the weight of the total tax burden on the economy, which is measured by Tax Freedom Day.

A Special Report which computes Tax Freedom Day state by state is available from the Foundation.

Tax Foundation

IN THIS ISSUE

Senate Finance Testimony	1
"Front Burner"	1
Tax Freedom Day Commemorative	1
President's Message	3
Conferences in D.C. and Dallas	4

FRONT BURNER

Combine Spending Restraint with Taxes to Reduce the Deficit

by Dan Rostenkowski

Big budget deficits are bad news for America. They're bad for American businesses that can't afford the investment to become internationally competitive. They're an impediment for our children who will be asked in the future to pay the debts we're running up now.

And they cripple our government, which cannot respond to pressing needs like the war on drugs because of the budget straightjacket.

That's why I came up with my budgetary challenge to reduce the deficit by more than $500 billion in the next five years. More than half this amount would come from spending restraint, including moderate cuts in defense spending, and a one-year freeze on spending for other programs, excluding only those that help the poor.

But spending restraint alone won't do the entire job. Taxes must be increased also. I came up with some suggestions that would raise revenue in a way that would spread the additional burden throughout our economy without creating any unbalanced fiscal drag on our economy.

My suggestions are:

- a one-year freeze on tax indexing changes;
- elimination of the "bubble" so that the top marginal tax rate won't drop back to 28% once it hits the 33% level. This should only have an impact on about 1% of taxpayers;
- a 15-cent per gallon increase in the gasoline tax;
- increased cigarette, beer and wine taxes;
- new taxes on pollutants.

The impact of higher excise taxes on the poor would be softened by an expanded earned income tax credit. As a result, the entire package would yield a tax system moderately more progressive than the one we have now.

"I call my plan the Rostenkowski Challenge because it is intended to provoke discussion and encourage action. I ask my audience to analyze it and make suggestions for improvement. My only requirement is that the resulting package be as comprehensive as mine."

In my view, this is a balanced program. Together we've created this enormous fiscal problem. It is appropriate that we work together — in the

See Rostenkowski on page 4

Dan Rostenkowski, a Democrat from Illinois' 8th District, is Chairman of the House Ways and Means Committee.

FRONT BURNER

Reduce the Deficit by Cutting Taxes

by Richard Schulze

Despite rhetoric circulating on taxes today, the fact is, tax rates are still too high, wealthier taxpayers pay a greater share of taxes today than in past years, and historical evidence continues to show that tax cuts increase revenues. In addition, unless we greatly simplify the tax code, something Congress ignored in 1986, we face extreme problems in the near future. First, let me dispel some economic myths head-on!

Tax Myth: Tax increases on the rich are needed because they don't pay their fair share. Because of tax policy, the rich get richer and the poor get poorer.

Tax Truth: Wealthier taxpayers today pay a greater share of federal income and social insurance taxes than in 1980.

The wealthiest 20 percent of American taxpayers today pay 58.1 percent of federal income taxes collected by the IRS. In 1980, they paid 55.7 percent. The poorest 20 percent of American taxpayers pay the same 1.6 percent of federal taxes collected today as they paid in 1980. In other words, the rich are paying a greater share of taxes and the poor about the same.

"For each dollar of increased revenue in recent years, Congress has spent $1.58, far exceeding the budget requests of the Reagan and Bush Administrations."

A look at social insurance taxes finds the same trend. The top 20 percent of income earners pay 41.4 percent of social insurance taxes collected today, up from 38.9 percent in 1980 while the lowest wage earning Americans pay 3.3 percent today, down from 3.4 percent in 1980.

In fact, the frequently quoted studies purporting to prove our current tax rates unprogressive are flawed. In addition to focusing primarily on tax rates rather than total taxes paid, these studies fail to include as income government transfer payments – direct payments from the government to poorer Americans.

Tax Myth: American's are undertaxed and tax increases are needed to reduce the budget deficit.

Tax Truth: American families pay more than 40 percent of their income in taxes, and if anything, tax cuts are needed.

The tax cuts of 1981 managed to pull our economy out of a recession, and the 1986 tax reform act cut income taxes for individuals by lowering the top rate from 50 percent to 28

See Schulze on page 3

Richard T. Schulze, a Republican from Pennsylvania's 5th District, is a member of the House Ways and Means Committee and Ranking Minority Member of its Oversight Subcommittee

Schulze from page 2

percent. Even with these "tax cuts," tax revenues have increased by over $50 billion per year, going from $517 billion in 1980 to a projected $1.073 trillion in 1990.

Clearly, the primary reason for the budget deficit has been runaway spending by Congress. In fact, for each dollar of increased revenue in recent years, Congress has spent $1.58, far exceeding the budget requests of the Reagan and Bush Administrations.

Tax Myth: Cutting tax rates, including the rate on capital gains, decreases available revenues for the federal government and increases the deficit.

Tax Truth: Recent history and taxpayer behavior prove that cutting tax rates increases revenues and spurs economic growth.

History proves that cutting taxes on capital gains assets, including homes, stocks, commercial property or other valuables, increases revenues to the Treasury. Who will benefit from these cuts? Over 74 percent of those reporting capital gains have wage and salary income under $50,000 per year.

Individual rate cuts also stimulate investment, economic activity and revenue growth. Lowering overall tax rates in the 1980s clearly showed an increase in individual income taxes collected. In 1986, tax rates dropped from 50 percent to 28 percent and 15 percent. Tax rates on individuals were cut substantially, yet, Americans paid almost $50 billion more in income taxes in 1987. Tax cuts, contrary to myth, increase revenues remitted to the Treasury.

Tax Myth: The 1986 Tax Reform Act simplified the tax code and increased tax collection efficiency.

Tax Truth: The 1986 tax act greatly added to corporate tax complexity and failed to remove taxpayers from the tax rolls.

A recent study by the National Association of Manufacturers found that in 1983, American corporations spent 66 cents to collect, account for, and pay each dollar of federal income tax. A subsequent study by the Tax Executives Institute found that the '86 Act increased corporate tax complexity as much as 191 percent for staff time, 1,025 percent for research time and 3,750 percent for the use of outside advisors. The conclusion one could easily draw is that U.S. corporations spend more to determine and pay their income tax liability than they ultimately pay. In most cases, corporations must calculate taxes three ways.

Why should this be of concern? It robs our economy of vital manpower to compete in an unforgiving world trading climate. No tax which costs more to collect than it raises is worthwhile or efficient. Simplification is essential for

See Schulze on page 4

PRESIDENT'S MESSAGE

Dubious Reputation of Budget Summits Makes All Parties Wary

Wayne Gable

Budget summits sound great in theory: politicians relax their posturing and huddle together to address a financial crisis. Does it really work that way, or is Rep. Leon Panetta's description of summitry more apt: "You've got boxers that have been throwing punches at each other for 10 rounds, and now you expect them to get together? It's not easy to stop in a hurry."

By the light of recent budget summits, the boxing analogy certainly holds. In 1987 and 1989, summits allegedly convened to lower the deficit ended up raising it, and the American people were knocked for a loop. Could it work well now? Well, past summit results don't leave us much room for optimism.

Participants in the 1987 summit emerged with a promise to reduce the deficit by $76 billion during FY1988 and '89. They intended to achieve the bulk of this savings by restraining $31.5 billion worth of spending and adding $28.3 billion in new revenue over the two years. What happened? In a nutshell, more tax revenue, broken promises on spending restraint, and higher deficits. The deficit actually rose $5.4 billion in FY1988, then remained stalled above $150 billion for the next two years.

The scene was played out again in 1989 with different characters but the same ending. Facing a requirement to reduce the deficit by $64 billion in February of 1989, President Bush arranged a confab with congressional leaders. The results: between 1989 and 1990, revenue increased $76 billion, spending increased $62 billion, and the deficit remained well above the $100 billion Gramm-Rudman-Hollings target.

Compare these years with FY1986, when growth in spending was held to 1.4 percent. The budget deficit fell $71.5 billion, setting an all-time record. When government revenue increases by billions of dollars, as it does every year, and spending growth is held in check, the deficit will drop. Ironically, we got much more deficit reduction *without* a summit.

Maybe this budget summit will be different. Current efforts to strengthen the budget process are laudable, and perhaps the personal diplomacy of President Bush will succeed where others have failed. My personal view, though, is that budget summitry holds out little hope. Ninety-five percent of Congress resents being excluded from the summit and is not bound by the agreements reached there — gone are the days when a handul of committee chairmen could crack the whip in Congress. Pre-summit comments sound more like shouts from ringside before the bell. The only concern of pundits is which political party will be left standing when the punches start flying. My fear is that the same party will take it on the chin as in 1987 and 1989 — the American taxpayer.

QUOTABLE

"I have a message for the President — Read my lips, keep the campaign pledge."

— Senator William V. Roth, Jr. (R-DE)
May 10, 1990

Tax Foundation Holds Budget Conference in Washington; Tax Policy Seminar in Dallas

"Tax and Budget Policy: On Trial for the '90s" is the theme of a joint Tax Foundation/Citizens for a Sound Economy Foundation conference on May 23, 1990, at the Hyatt Regency on Capitol Hill in Washington, DC.

The roster of distinguished speakers includes Senator Phil Gramm (R-TX); the Honorable James R. Jones, CEO, American Stock Exchange; the Honorable Fred T. Goldberg, Commissioner, IRS; Rep. Bill Frenzel (R-MN); James C. Miller III, Co-chairman, Tax Foundation; Henry Aaron, Brookings Institution; Rep. Leon Panetta (D-CA); and Rep. Christopher Cox (R-CA).

A reception from 4:45 – 6:30 will follow the conference. Call 202-863-5454 for more information.

"Economic/Tax Policy for the '90s" will be the theme on Thursday, June 14, 1990, in Dallas. The program will feature a kickoff address by James C. Miller III, co-chairman of the Tax Foundation, and a luncheon speech by T. Boone Pickens, General Partner, Mesa Limited Partnership.

The cost of the seminar, which is officially registered with the Texas State Board of Accountancy, is $100 per person. For additional information, contact Ron Bunn at 202-863-5454.

Rostenkowski from page 2

spirit of shared sacrifice — to resolve it.

In response to a White House concern, I added budget process reforms that would preclude Congress from spending new revenues rather than applying them to deficit reduction.

I call my plan the Rostenkowski Challenge because it is intended to provoke discussion and encourage action. I ask my audience to analyze it and make suggestions for improvement. My only requirement is that the resulting package be as comprehensive as mine is.

Some say my plan is too bold for our political system to embrace. I think it is no bigger than the problem. If I succeed, it will move the debate from blame placing to responsibility sharing.

Early response to the plan has been mixed. There have been positive responses from the White House, major corporate executives, trade associations, high school students and a few of my colleagues in Congress.

But a more common response from politicians is wariness. They're reluctant to endorse tax increases and have little faith that the budget process can become a positive force.

Obviously, they're responding to recent history.

I hope to generate enough public pressure to convince our leaders to move forward. Things have been stalled for too long. The stakes are too high to be ignored any longer.

Schulze from page 3

our businesses to compete.

Finally, individual taxes must also be simplified. The 1986 tax act dramatically increased record-keeping and compliance costs for most taxpayers who itemize deductions. Clearly, simplification was not the thrust of the 1986 tax act.

As a Member of the House Committee on Ways and Means, actively involved in all of the matters mentioned above, I will continue to work to simplify our tax code, see that progressive and constructive changes are made where necessary, and combat rhetoric concerning the tax myths being circulated in Washington, chiefly by those who want to increase your taxes.

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